



*Promoting choice and
value for all customers*

Independent gas transporters,
shippers and other interested parties

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Dear Colleague,

Revised guidance for Relative Price Control (RPC) for IGTs

1. This letter sets out two revisions to the RPC Guidance and a clarification with regard to the drafting of Special Condition 1. The latest version of the RPC Guidance is attached to this letter and supersedes any previous one.

Calculation of the Connected System Exit Point (CSEP) under RPC

2. On 16 December 2004, Ofgem issued a consultation letter proposing to amend the approach for calculating the CSEP charge under RPC in response to concerns raised within the industry that the current approach may not be appropriate. In particular, the consultation letter suggested three alternative options.¹
3. Having considered the views expressed by respondents, Ofgem has decided to amend the approach and implement option 3. Paragraphs 6.5 and 6.18 of the RPC guidance have been revised to reflect this new approach for calculating CSEP charges for all RPC sites.
4. The revised approach for calculating the CSEP charge was set out in paragraph 6 and Table 1 of the consultation letter. To reiterate, the CSEP charge comprises a capacity charge and a commodity charge. Under the revised approach, there is no change in the way the commodity element of the CSEP charge is calculated. However, the capacity element of the CSEP charge should now be calculated using the property SOQ and property AQ on a property basis following the two steps below:

- $\text{LDZ unit rate}^2 * \text{property SOQ} * 365 = \text{actual CSEP charge}$
- $\text{actual CSEP charge} / \text{property AQ} = \text{capacity element of CSEP charge (pence/kWh)}$

¹ The December consultation letter and the non-confidential responses are available on Ofgem's website at www.ofgem.gov.uk

² The LDZ unit rate is a function of the CSEP SOQ for sites with a CSAQrpc of 732,000kWh and over

5. Please note that this revised approach will take effect on all sites in RPC from 1 July 2005 and cannot be applied retrospectively to change the charges levied on properties up to 30 June 2005.
6. Some respondents to the December consultation letter maintained that implementation of the revised method to calculate the CSEP charge would impose IT and billing systems costs. These costs cannot be recovered through transportation charges under Special Condition 1.
7. In recognition of the potential for these costs to arise, Ofgem has decided to allow IGTs to derogate from the revised method to calculate CSEP charges. This will enable IGTs to continue using the existing method if they were to determine that implementation costs associated with option 3 were too onerous.
8. Ofgem will consider any application for derogation submitted within 30 days of 1 March 2005. In submitting an application the IGT will need to briefly state its reasons for the derogation. In reviewing the application Ofgem will consider the type of sites that make up the IGT's portfolio. For example, a portfolio containing a large number of domestic sites - where the discrepancy in CSEP charges does not exist between the two methods - would be able to derogate from the revised arrangements. Ofgem will examine the templates of sites already submitted under the RPC monitoring and enforcement process to determine the type of sites typically serviced by the IGT. IGTs can also submit additional information for Ofgem to consider as part of its application. Once a derogation is granted to the IGT, Ofgem will review its scope no sooner than five years.

Revised standard NeXA AQs for new domestic houses

9. The RPC monitoring and enforcement process has revealed that some IGTs are using a different set of NeXA AQ values for new domestic houses to the one set out by Ofgem in the Final proposals paper.³
10. The discrepancy arises from the differing decimal places used in converting therms into kWh. As neither Special Condition 1 nor the RPC Guidance explicitly stated the NeXA AQ values to be used in deriving RPC charges, this has led some IGTs to adopt the 'Standard' AQ values as determined by the AQ Review.
11. Although the difference in AQ values is minor, a consistent set of values should be adopted by all IGTs. With this mind, IGTs should use the 'Standard' AQ values as set out in Table 1 of the RPC Guidance (paragraph 2.6) on all properties in RPC from April 1 2005. This replaces the AQ values that were published in the Final proposals paper.

Clarification on calculating the annual uplift in IGT charges and the floor & ceiling

12. We would also like to take this opportunity to clarify some drafting in Special Condition 1 to avoid any possible misinterpretation. This specifically relates to the wording used to explain the formulas for uplifting the IGT charge (TC_t) and floor and ceiling (F_t and C_t) each January. For the avoidance of doubt, the values of the $wSSP_t$ and RPI (both of which are calculated as a percentage change) should be inserted into the relevant formulas as a number and not as a percentage. For example, a 2.93% RPI uplift should be included in the formulas as 2.93.

³ Appendix 2 in *Regulation of gas transporter charging, Final proposals*, July 2003.

13. As we have previously stated, Ofgem will continue to keep the RPC guidance under review to ensure it remains appropriate and meets the interests of consumers.

Yours faithfully,

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